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From:

Sent: Friday, June 08, 2012 4:49:34 PM

To:

Cc:

Subject: Bank Charge-offs

This responds to your memorandum dated April 2, 2012, relative to Bank. You state in that memorandum: "The issue in the present case is whether the placements of debts into the Bank's specific valuation allowance account qualify as charge-offs of partially worthless debts under I.R.C. § 166(a)(2)." You note that the IRS Examiner has audited the amounts considered to be partially worthless and that the IRS Examiner is satisfied with the amount of partial worthlessness that was claimed by Bank. Consequently, the actual amount of the partial worthlessness is not at issue in your case.

The facts you have provided include: (1) Bank physically notated a movement of the amount considered worthless from a general bad debt reserve to a specific valuation allowance; (2) Bank reduced the value of its assets reported on its books by placing the amount representing partial worthlessness in the specific valuation allowance; (3) the placement of the amounts representing partial worthlessness in the specific valuation allowance had a deleterious effect on Bank's capital position; (4) the notes to Bank's consolidated financial statement for the year at issue disclosed that Bank moved loan losses to the specific valuation allowance when its management believed the uncollectibility of a portion of a loan to be confirmed; (5) the notes to the financial statement also set forth the amount of the loan loss; and (6) the case file contains no information inconsistent with the notion that the portions of the loans placed in the specific valuation allowance were no longer counted as assets.

We have reviewed the authorities cited in your memorandum and certain other authorities (which have been conveyed orally to you). Based on our review of the foregoing, and your factual representations, we have no objection to the conclusion reached in your memorandum.

Please let me know if you have any other questions pertaining to this matter. With this, we will close our files.